

State Board of Equalization

Sales and Use Tax Program

Continuation of Increased Tax Collection Activities

Fiscal Year 2003-04

A. Nature of Request

The Board of Equalization (BOE) is proposing that the Governor's Fiscal Year (FY) 2003-04 Budget include language to permanently reclassify 50 tax audit positions to 50 tax collection positions.

Due to the budget deficit the State is currently experiencing, it is prudent to continue to maximize the State's incoming General Fund revenue.

B. Background/History

During FY 2001-02, the Legislature approved the reclassification of 50 tax audit positions to 50 tax collection positions on a two-year limited-term basis in an effort to increase the State's revenue. Based on actual collections through November 2002, at full staffing of the 50 collection positions, net revenue projected for the first full year will exceed \$10 million¹ to State and Local government. This exceeds the original estimate for net revenue of \$7.4 million for FY 2002-03. Since this reclassification authority expires on June 30, 2003, the BOE requests budget language to permanently reclassify these positions, at no additional cost, in order to continue the increased revenue stream.

C. State Level Considerations

STRATEGIC PLAN CONFORMITY:

This proposal is consistent with BOE's goal to "Collect and Allocate Revenues as Required by Law", and Strategic Plan, Issue II, "Modernizing Tax Compliance Practices," under Strategy 3, to "Identify and analyze areas of non-compliance and develop approaches to address targeted problem areas, while maintaining customer service awareness."

¹ Marginal Revenue for 50 tax collectors	\$21,654,000
Marginal Revenue for 50 tax auditors	<u>\$11,970,000</u>
Net Revenue Change	<u>\$ 9,684,000</u>
(Rounded)	<u>\$10,000,000</u>

D. Justification/Analysis of All Feasible Alternatives

Alternative 1 – Permanently reclassify 50 tax collection positions by adding the following provision to the Budget Bill:

“The Board of Equalization will permanently reclassify 50 tax audit positions to 50 tax collection positions effective July 1, 2003.”

Pros:

- Continues the increased revenue stream.
- Continues the marginal level of revenue collection productivity at the existing level.

Con:

- Requires that a provision be added to the Budget Bill of 2003.

Alternative 2 – Extend the reclassification of 50 tax collection positions for an additional two-year limited-term basis.

Pros:

- Continues the increased revenue stream.
- Continues the marginal level of revenue collection productivity at the existing level for two additional years.

Con:

- Provides an increased revenue stream for a limited time.

Alternative 3 – Revert the 50 tax collection positions back to 50 tax audit positions on June 30, 2003.

Pro:

- No budget provision needed.

Cons:

- Could result in less revenue since audit positions produce less revenue per position at the margin.
- Results in lower productivity during the first fiscal year because 50 new auditors would need to be trained.
- Results in a loss of trained and productive revenue collection staff.

E. Timetable

Effective July 1, 2003.

F. Recommendation

It is recommended that Alternative 1 be approved and that the 50 tax audit positions be permanently reclassified to 50 tax collection positions.